

KING COUNTY, WASHINGTON
Special Audit
January 1, 1994 Through January 31, 1996

Schedule of Findings

1. Public Funds Were Misappropriated And Accounting Records Were Falsified

Our audit of the financial records of King County revealed at least \$24,258.46 in public funds was misappropriated by a confidential secretary in the Department of Information and Administrative Services (DIAS, formerly the Department of Executive Administration) during the period May 24, 1995, through January 18, 1996. Accounting records were falsified in an attempt to conceal these losses. There were no federal funds involved in this case.

This situation was initially detected by an employee in the county purchasing department when investigating a vendor inquiry regarding the refund of a bid deposit which the company had not yet received. The employee made inquiries of the accounts payable department and discovered the warrant to the vendor had already been cashed by the bank. An examination of the canceled warrant revealed the name of a confidential secretary in DIAS had been typed in above the company name and the warrant had been endorsed by that employee. On Friday, January 19, 1996, the department director and a representative of the King County Prosecuting Attorney's Office met with the confidential secretary, who admitted to cashing the warrant but stated she had used the money to secure a cashier's check for the same amount which she sent to the vendor. She was immediately placed on administrative leave pending further investigation of the matter by the police and King County. The employee called the department director on Sunday, January 21, 1996, and confessed to converting the warrant in question to personal use. Her employment with the county was terminated on Monday, January 22, 1996.

King County officials then began an investigation to determine whether other county expenditures had been converted to personal use, or other unauthorized transactions had been made by the confidential secretary. This investigation covered the period January 1, 1994, through January 31, 1996. During our audit, we reviewed the work performed by the King County Executive Internal Audit office and agreed with their findings and conclusions. These funds were misappropriated as described below.

a. County warrants issued to vendors were stolen and altered.

The confidential secretary picked up warrants issued to vendors from the accounts payable division, supposedly to mail them out. In some cases, the warrants taken were issued by other county departments. These were legitimate payments to vendors which were simply stolen. In other instances, the confidential secretary created fictitious payment vouchers using copies of invoices which had been previously processed and paid. She then stole and cashed the duplicate warrants that were issued. She altered the warrants by typing in her name above the vendor name. Losses from this method totaled

\$14,441.76.

- b. Unauthorized and personal expenses were charged to a county credit card.

The confidential secretary charged personal expenses to, and made an unauthorized cash advance on, a county credit card. These expenses included a down payment on the purchase of a personal vehicle. Losses from this method totaled \$2,679.30.

- c. Unauthorized salary increases were entered into payroll records.

The confidential secretary adjusted her hourly pay rate on payroll transmittal forms after they were approved by the department director and before they were submitted to the payroll department. Losses from this method, including employer payroll taxes paid on the unauthorized salary amounts, totaled \$7,137.42.

RCW 40.16.020 states:

Every officer who shall mutilate, destroy, conceal, erase, obliterate or falsify any record or paper appertaining to the officer's office, or who shall fraudulently appropriate to the officer's own use or to the use of another person, or secrete with intent to appropriate to such use, any money, evidence of debt or other property intrusted to the officer by virtue of the officer's office, shall be punished by imprisonment in a state correctional facility for not more than ten years, or by a fine of not more than five thousand dollars, or by both.

RCW 42.20.060 states:

Every public officer, or person holding or discharging the duties of any public office or place of trust under the state or in any county, town or city, a part of whose duty it is to audit, allow or pay, or take part in auditing, allowing or paying, claims or demands upon the state or such county, town or city, who shall knowingly audit, allow or pay, or, directly or indirectly, consent to or in any way connive at the auditing, allowance or payment of any claim or demand against the state or such county, town or city, which is false or fraudulent or contains any charge, item or claim which is false or fraudulent, shall be guilty of a gross misdemeanor.

The following internal control weaknesses allowed these losses to occur and go undetected by county management officials:

- a. The confidential secretary was able to obtain and convert county warrants to personal use because she was able to sign-out warrants from the accounts payable department without verification by the warrant custodian.
- b. The accounts payable division processed and issued warrants based upon photocopies of invoices without any follow-up.
- c. The confidential secretary had unrestricted access to the department credit card. She received and reviewed the credit card statements, initiated the payment vouchers to pay the credit card bills, maintained the payment record files, and accessed the warrants before they were delivered to the vendor.

There was no independent verification or adequate monitoring of her work.

- d. The confidential secretary had control over payroll transmittal forms, both during their preparation and after they were approved by the department director. This internal control weakness allowed her to alter payroll records after they were approved and before they were submitted to the payroll department for processing.

We recommend King County seek recovery of the misappropriated \$24,258.46 and related audit/investigation costs from the confidential secretary from their bonding company. We further recommend the Washington State Office of the Attorney General and the King County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond overage for King County employees is as follows:

Insurer: Hartford Insurance Company
Type of Policy: Public Employees Dishonesty/Crime Coverage
Policy Number: PEBJQ8782
Dollar Amount: \$2.5 million, with \$15,000 deductible provision
Period of Coverage: Effective until canceled

We also recommend King County review overall accounting controls in the Department of Information and Administrative Services, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.